

THE VERIBANC COLOR CLASSIFICATION SYSTEM

The VERIBANC color code is a quick-look measure of an institution's condition based on its equity strength and profitability. Three color categories are used - - green, yellow and red. The criteria applied by VERIBANC to determine the color category assigned to an institution are as follows:

GREEN The institution's equity exceeds five percent of its assets and it was profitable during the most recent reporting quarter. Of the three color categories, this is the highest based on the criteria described.

YELLOW The institution's equity is between three and five percent of its assets or it incurred a net loss during the most recent reporting quarter. Both of these conditions may apply. If there was a net loss, the loss was not sufficient to erode a significant[†] portion of the institution's equity. The items which result in a yellow classification merit your attention.

RED The institution's equity is less than three percent of its assets or it incurred a significant net loss during the most recent reporting quarter (or both). The item or items which result in a red classification deserve your close attention.

[†] A quarterly loss is considered significant when it exceeds 18.75 percent of an institution's equity. If a bank, S&L or credit union's loss continues to exceed 18.75 percent of its equity every quarter, the institution could become insolvent within one year of publication of this report. Of course, VERIBANC has no way of knowing whether or not losses at an institution will continue.

THE VERIBANC STAR CLASSIFICATION SYSTEM

In addition to the color code, VERIBANC assigns each institution three stars (***) , two stars (**), one star (*) or no stars (none). The star rating considers future trends and contingencies not accounted for in the color classification. The criteria used by VERIBANC to determine the number of stars assigned to an institution are as follows:

******* The institution must meet the following primary conditions: (1) equity which exceeds five percent of assets, (2) equity which exceeds four percent of assets after deducting problem loans, investments and derivatives contracts in excess of its loan loss reserves, (3) positive net income for the indicated reporting quarter. Banks and S&Ls must also satisfy all three regulatory capital requirements (see following), and must not have any recent, serious regulatory sanctions against them. In addition, insider lending at an institution must not exceed 35 percent of equity. If a bank is owned by a holding company, all of the holding company's banks, taken together as if they were a single bank, must meet the criteria necessary to receive at least a two stars rating. A bank may only have two or fewer volatile periods of asset growth over the past ten quarters. For banks and credit unions, problem investments also include investments that, if sold, would realize less than their cost plus specific investment reserves.

- ** The institution meets any two of the three primary conditions for the three stars category and has equity which exceeds its unreserved problem loans, investments and derivatives contracts. If the institution had a net loss during the most recent reporting quarter, the loss was not significant. Banks and S&Ls must also satisfy all three regulatory capital requirements (see below), and must not have any recent, serious regulatory sanctions against them. Additionally, if a bank is owned by a holding company, all of the holding company's banks, taken together as if they were a single bank, must meet the criteria necessary to receive at least a two stars rating. A bank may only have three volatile periods of asset growth over the past ten quarters. For banks and credit unions that have investments with a current market value that is less than their cost, that difference must not exceed equity plus specific investment reserves.

- * The institution meets at least one of the primary conditions required for the three stars category, reports equity which exceeds three percent of assets and also exceeds unreserved problem loans, securities and derivatives contracts. If the institution had a net loss during the most recent reporting quarter, the loss was not significant. Moreover, if the institution is a bank or S&L, it meets at least two of the three federal capital requirements for tier one (core) capital and total capital as a percentage of risk-weighted assets and tier one capital as a percentage of average assets. A bank may receive no higher than a one-star rating if it has been subject to a serious regulatory sanction, or if all of the banks in its holding company, taken together as if they were a single bank, receive a one-star or no-stars rating. A bank has four or more volatile periods of asset growth over the past ten quarters. Also, a bank or credit union may receive a one star rating if, absent other reasons for downrating as stated above, the difference between the cost and current market value of its investments exceeds the institution's equity plus specific investment reserves.

NO STARS The institution does not meet the criteria stated above.